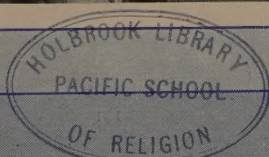
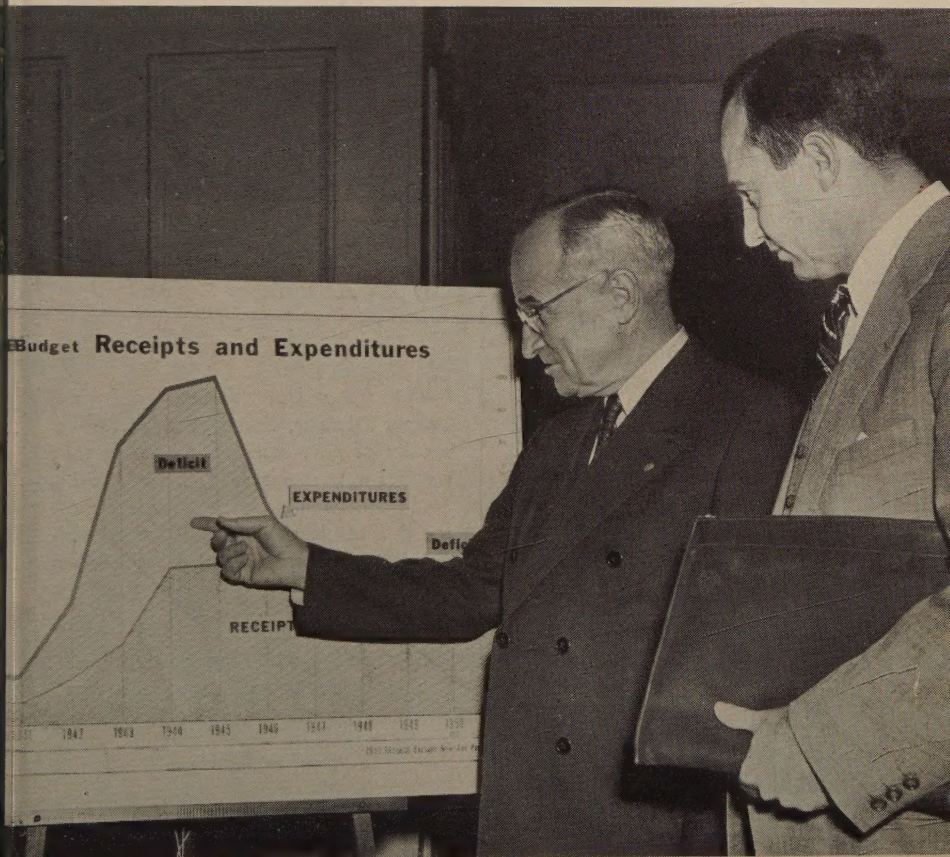


# SOCIAL ACTION

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Freedom of Enterprise and Social Control

# SOCIAL ACTION

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Ray Gibbons

COVER: President Truman and his Budget Director, Frank Pace, Jr., study a chart of government expenditures and receipts over recent years. This issue of *Social Action* deals with the relation of social controls such as government tax policy to freedom of enterprise. (Wide World photo)

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# Freedom of Enterprise and Social Control

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*The article which follows is the working paper prepared for the second Church and Economic Life Conference of the Federal Council of Churches at Detroit, February 16-19, 1950. It was drafted by our editor, Kenneth Underwood, and revised by the preparatory committee on the topic "Organized Groups: Freedom of Enterprise and Social Controls." This paper was used for discussion by two sections of the conference and then a report on the issues raised by it was adopted at the plenary session by the four hundred delegates. The final report of the conference, an effort to achieve consensus from many viewpoints, bears little resemblance to the original paper.*

*The topic of this paper was the most popular of any discussed at the conference. We believe you will want to read it carefully and consider it with your friends and in your church.*

—RAY GIBBONS

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## *A Religious Attitude of Mind*

Almost every one feels strongly about the issues to be discussed here and a wide range of reactions to such key words as freedom, justice, social control and planning can be anticipated. In consideration of this subject in which interests of great organized groups and the lives of millions of unorganized peoples are involved, may the mind of our Lord dwell in us. May we achieve an attitude of personal disinterestedness by which we may arrive at judgments for the benefit of our neighbors rather than simply ourselves. May we be motivated to seek those economic decisions which will provide justice for all persons, for God wills no less than this. May we remember that the Holy Spirit can provide profound insight into the nature of ourselves and the social groups which we support; He can reveal our tendencies to distort the truth and to extend our power in order to promote our own interests over



*Russell Loesch*

At a special public luncheon on the first day of the Conference on the Church and Economic Life, four speakers made opening statements defining the task and significance of the Conference. These speakers were (left to right above): Herschel Newsom, National Grange; Noel Sargent, National Association of Manufacturers; George M. Harrison, Brotherhood of Railway and Steamship Clerks (AFL); and Walter Reuther, United Automobile Workers (CIO).

those of others; He can guide us in the organization of political and economic institutions for greater freedom and justice. May we study these issues, then, in humility, aware that all of us have offended against God's holy laws, that we as individuals and as organized groups have left undone those things we ought to have done, and have done those things that we ought not to have done, that there is no health in us save that given us by the Grace of God.

With such a religious attitude of mind and with careful factual and value judgments about these economic issues, we



may discover more fundamental agreement than the tactics and slogans of our special interest groups might indicate concerning the relation of free enterprise and social control. We may be able to discern more clearly the fundamental conflicts of values among organized groups, for much disagreement about what to do in specific matters of monopoly, social security, fiscal policy, etc. may stem from disagreement over the importance of values such as justice, efficiency, freedom and social control. We shall also need to consider in our discussion the present state of our economy and the directions of social change in crucial areas. There may be institutional structures and arrangements which limit our choice of action. Since we live in a society where policy is molded greatly by organized groups, we shall need to know the basic positions of these groups. Finally, we must see if we can discover steps we can take toward realizing the goals which we may be able to agree upon.

### *Basic Values*

Christians believe that this is God's world and that He has revealed His love for all men through Christ. Christians are called, therefore, to make love the basis of their human relationships. They should seek to express love in multiple ways, among them by striving for the realization of justice for all groups. Further, there can be no true brotherhood unless there is freedom of conscience; the ultimate dimension of freedom is the liberty to obey God rather than men when the demands of men are held to conflict with one's loyalty to God. Social institutions which stultify freedom of conscience, therefore, must be opposed.

Men do not agree on the most important values to be pursued in our society, though they may seek many values in common. We desire a social system in which there is opportunity to disagree on values and to organize action to correct value emphases which we deem dangerous. A system is in danger which tends to give too great an emphasis to one value

—to order, for example, to the exclusion of freedom. We seek a relationship of free enterprise and social control which helps every individual to make his own value judgments and to pursue his particular values as much as possible, so long as he does not prevent others from doing the same. In short, we seek a society which offers a wide choice of values.

Christians believe that true brotherhood does not exist unless the supreme value of every person in the sight of God is recognized. Paul said of man, "Ye are the temple of God." We desire an economic system in which commonly sought goods and services are shared and dispersed throughout the community and are not highly concentrated in a few groups or classes. As Christians we know that man does not pursue purely economic ends independently of other goals. Income and wealth are important for they condition man's opportunity to partake of many values, but man is also a political being, valuing participation in decisions which affect his life. He is a biological and psychic being, seeking bodily and mental health. He is a social being desiring knowledge and skills which are respected by his associates and which give him an opportunity to work with his fellow men and to serve them. Man is a moral and religious being capable of valuing those acts which call for self-sacrifice in aid of others and which are pleasing in the sight of God.

Therefore, Christians must seek that relationship of free enterprise and social control which makes possible the fullest development of human personality and brotherhood. Christians must seek to remove economic conditions which violate the principle of brotherhood by the denial of genuine equality of opportunity, by the formation of irresponsible concentrations of power, by the imposition of unnecessary poverty, by the setting up of classes with privileges incommensurate with their service to society. The theme which this paper confronts, of relating liberty and order in the service of justice and love, is certainly one of the greatest in the life of society.



### *The Price System—Some Definitions of Terms*

The phrase "free enterprise," as used by many organized groups, has been identified as the name for an entire social system or basic instrumental value by which man can best achieve the other values he seeks as a political, economic, social, moral and religious being. It is a system in which much the greater portion of economic life is carried on by private (non-government) units under conditions of a price system or market mechanism. For some groups, free enterprise has meant simply the freedom to go into business on one's own and to make and sell what one likes for the public to purchase, but the chief discussion over relating freedom of enterprise and social control now centers on the major type of price system which our economy is to have.

Social control is an instrumental value also. A society seeks to achieve certain goals, to make conscious and deliberate choices of social priorities, and then, if need be, to establish checks upon individual and group action in order better to achieve these goals. The checks we are most concerned with here are those instituted by private organized groups and public authorities. We shall need to know how much control is to be exercised over whom, by whom and for what ends.

If we are to understand why our discussion is to center upon the freedoms and controls involved in the operation of the price system, we must be certain as to the role and nature of it in our economy. In any economy men have to make at least five major economic decisions. They have to decide: (1) what is to be produced; (2) how resources are to be allocated in order to produce the goods and services which will satisfy the wants indicated; (3) how goods and services will be distributed to individuals in the economy; (4) how consumption and production are to be adjusted in case production has not been what the public wanted; and (5) whether certain resources will be used for immediate consumption or for saving to enlarge productive facilities.

These functions may be performed with or without a price system. A dictatorship or authoritarian group may decide what shall be produced, how it shall be produced, etc. Or a group of planners elected by the people or given some form of political mandate may carry out these functions. Or they may be performed by some type of price system through the so-called "market mechanism." We can understand this mechanism best and the variations of it which our society has achieved by first describing what we might call a standard or complete price system.

A complete market mechanism or price system is operating when: (1) An economy decides what to produce by having individuals indicate what their wants are through purchasing goods and services for a price. (2) Buyers, in the presence of sellers, have alternatives either in similar products offered by other sellers or in substitutes for those products. In other words, in a price system, people calculate the value of goods on the basis of the alternative cost of a substitute good or service. The value people place on goods is usually a marginal one, since they already have certain goods and must decide on one more of a certain thing in place of one more of something else. (3) Movement of resources (land, capital, labor) takes place until what people are willing to pay for an additional good just equals the cost of producing it. If people are willing to pay more for shoes than the cost to produce them, but will not pay for hats the cost of producing them, they want more shoes produced and less hats, and under a complete price system resources would be shifted until the price of each product equals its average or marginal cost of production.

### *Varied Price Systems in America*

There are varied price systems operating in America, some having all the features of a price system as described above, some not. When the government enters agricultural markets in order to support farm prices, it reduces the power of the in-



dividual to indicate his agricultural wants in the market, thus eliminating the first characteristics of a price system. A falling price on potatoes in a complete price system would inform producers that consumers want less potatoes, but if the price is prevented from falling by the government, the producer of potatoes will tend to produce more than the consumer wants. At this point, the price mechanism has been altered by social controls on the assumption that the full operation of the market mechanism conflicts with the security of the farmer. Other social controls have been suggested in which the operation of the market mechanism, as an indicator of what consumers want, is restored and the security needs of the farmer are to be met by direct income grants.



*Oscar & Associates*

The president of the American Farm Bureau Federation, Allan Kline, addresses the 31st annual meeting of the Federation in Chicago, December 15, 1949. Debate over the price policy which the government is to carry out in agriculture was prolonged and heated at this convention. The American people, the article suggests, will have to decide whether the price system could be used more fully in agriculture to allocate productive resources and other government action be used to meet the welfare needs of the farmers.

If the second aspect of the price system—that productive resources such as labor are valued by the producer according to the cost of substituting other factors in production or other labor—operated in the industry the worker could not be sure of a stable income. The labor movement has sought to protect the price of labor against the operation of a free market and to keep wages from being regulated purely on a competitive basis.

We have also allowed business men to gain enough control over various markets to eliminate some of the features of a complete price system. In such cases, producers have greater control over the amount produced and the price charged than when a complete price system is in operation. They can, if they desire, restrict the output to less than the amount sought by consumers and raise the price of the product which they sell above that obtainable in a competitive market. The resources are no longer allocated according to the third characteristic—equality of marginal costs and price—and the sovereignty of the consumer over the allocation of resources is transferred in great part to the producer.

### *Criticisms of the Price System*

These and other alterations in what we have termed a pure or complete price system have been made because of the failure of the system to serve or protect interests which many have felt to be important. The case which is presented against the market mechanism may be summarized as follows:

The experience of millions of people in the great depression convinced them that an unregulated price system may cause fluctuations in the national income which lead to alternate periods of great unemployment and dangerous inflation. These people believe that the federal government should at least intervene to influence the total demand for goods and services. Moreover, many Americans have a growing realization of the disturbing inequalities of income and property which they believe *laissez faire* capitalism produced. Many people have come



to the conclusion that the price system when unregulated accentuates the inequalities of wealth in America. The accumulation of wealth by individuals makes possible the accumulating of still greater wealth in an unregulated price system. Where there is great inequality, consumers do not have an equal vote in the determination of production. The outcome of the competitive game becomes a very inadequate test of real ability, since men enter it with such varied economic and educational resources.

Further, the price system, it is argued, does not allow individual consumers to express adequately some of their wants. The price of private education would be too great for the market to register consumer want adequately. Medical care may appear to the American people as a want that cannot be adequately expressed through the private market mechanism. These are collective wants which individuals find they can best express through the ballot box rather than by votes in the market and the government responds to these wants by making collective expenditures from tax sources.

The price system, some people protest, does not register the social costs of certain products—the exploitation of natural resources, the pollution of streams and of the air, the damage to consumers from uninforming or deceiving advertising. These are items which this society must pay for and which need to be taken into account in the decision as to whether more or less of a product is wanted by the consuming public.

The price system has been questioned perhaps most harshly by some for its effect on human motivation. The unregulated price system, it is charged, puts a price on everything, and acquisition of money becomes the dominant ethic of the society.

Finally, the claim is made that the price system, if production is actually being adjusted to consumer demands, necessitates changes in allocation of resources which often conflict with the desires of various groups for security. This drive for

*Wide World*

There are collective wants, such as low-cost housing, which the American people have found they can better express through the ballot box than through "votes" in the market. The government responds to these wants by making collective expenditures from tax sources for projects such as the housing development which replaced this slum in Jacksonville, Florida.

security has led men in the fields of business, agriculture and labor to seek alterations of the price system.

These criticisms of the price system are voiced by people who feel they have known well the sting of the unregulated market mechanism. Such abuses have made it difficult for them to estimate the danger of other forms of economic institutions or to value the positive functions of the price system. One of the great, unresolved issues in our economy concerns what departures from or controls over the price system should be encouraged to meet obvious abuses and what aspects of the system should be retained to perform certain important economic functions. Clearly the pure price system is not acceptable



to many Americans as the basic norm or model for the organization of our economy; new values stressed by important groups are leading to a reformulation of standards to guide the development of our economy. Christianity with its demand that supreme loyalty be given to God is a force for liberating people from old norms; and Christianity's affirmation of the creative work of God in history also calls men to respect the conditions of their existence and to conserve those elements of it which best serve the values of efficiency, freedom and justice.

### *Positions of Organized Groups*

Organized groups in America represent a variety of positions on price policy. The public positions taken by these groups on what the price system is and should be fall into five major categories.

A. In the vocabulary of "classical liberals" some business groups argue for the free market of private producers as the central attribute of a free enterprise economy. They place great stress upon such values as freedom of consumer choice or of individuals to decide what they will produce and where they will invest their capital and entrepreneurial efforts. The major threat to the free market is "government tinkering" with the market mechanism through various forms of regulation. "Labor and government" monopolies are the most dangerous interferences with the price system. Yet some trade associations accepting the above position would like to see the Sherman and Clayton Acts amended to permit greater "self-regulation" of industry, so that business already established could prevent "chisellers" from using price cutting to get into the market and in order to remedy other "excesses" of a competitive price system. The competition feared is frequently not simply price competition, but competition from new commodities, new technology, new sources of supply, new systems of business organization. Some businesses have sought control of

the entry of new technological developments and of the price system, arguing the elimination of some aspects of the system as necessary to economic progress.

B. Following the recommendations of the Temporary National Economic Committee, set up by Congress in the late thirties, some organized groups single out big business monopolies as the chief area where competition must be restored. While the publicity of the first group stresses the necessity of *keeping* the free enterprise system by avoiding government regulation in business and government planning in general, these groups stress the necessity of *restoring* the system with deliberate government controls for a complete price system. They believe that if a group is to advocate a free private market it must encourage the government to plan for this type of price system as carefully as it might plan for socialism. They emphasize the extent of monopoly practices in business as it now exists and term "self-regulation" merely legalized monopoly. Many supporters of this point of view are to be found in small business and labor groups, among whom opposition to big business monopoly rather than to local business or labor monopoly lies closer to their own interests.

C. Other groups are willing to accept the present institutional structure of business and labor, for they believe that big business and big labor cannot be broken up into small competitive units and that these organizations have been developed to eliminate real abuses in the free market mechanism. They place great faith in the rational, benevolent nature of man, and believe that private business, labor and agriculture can so learn to regulate the expression of their self interests and to cooperate in the interest of the entire economy that the government will not have to extend its regulation over the nation. They urge producers to assume responsibility for low price, high production policies and unions to develop voluntary restraints upon wage and security demands.

D. Several important organized groups doubt that such self-



regulation can be effective. They have a less optimistic view of man's nature. They see our economy as "mixed" in which competitive business, cooperatives, private monopoly under government regulation, publicly owned monopoly, regional government planning, government agencies setting prices by democratic political authority all exist side by side. In other words, they recognize that the United States has developed varied price systems and political controls in order to meet valid protests against the failure of the market mechanism to sustain values held important by various groups of Americans. Such political controls as taxation to reduce income inequalities, strategic monetary and fiscal policies to aid in economic stabilization, and legislation to restore competition in some areas where objectionable monopoly now exists have been sought by groups in this fourth category.

E. Still other organized groups wish to see at least the basic industries owned by the government, for they believe that the utilization of the nation's productive and distributive resources must be a matter of public policy. Socialists differ in the emphasis they place on the use of a price mechanism. Most American Socialists point out that it is quite possible and desirable that a Socialist society use a price system for allocating resources according to consumer demands. Other people in this fifth category wish to abandon a price system in basic areas of our economy and to allow the state to plan quantitative goals for the output of important industries and for the use of productive factors. Raw materials and capital goods would be carefully allocated by the state, labor would be directed to the planned industries, and consumption of many products would be subject to rationing and licensing.

Thus the programs of organized groups in America and the economic practices of various sectors of our economy offer a multiplicity of alternative ways of relating free enterprise and social controls. Some economic groups combine portions of two or more of the five general positions suggested above.

The continuing problem in our nation will be to find the right proportions between varied price and non-price systems and to use each of them in its proper place and in such a way as to gain the support of basic groups in our society.

Suppose we were to pose the problem in this way: Should we attempt to maintain and to restore, where not now existing, the unregulated price mechanism or should a policy of state planning and control of the allocation of natural resources be instituted? The answer would apparently be that as a nation we can accept neither alternative. The criticisms of the unregulated price mechanism are accepted by too many people for the nation to consider embarking upon the first policy. And as for the second, the allocation of resources by social planners without the use of a price system contains too great a threat to personal freedoms to have attraction for us. Recently in certain democratic countries outside the United States, direct wartime instituted controls in allocation of resources have been eliminated and a new appreciation is evident of the efficiency and freedom made possible by the proper use of the market mechanism.

### *A Proposed Middle Way*

The following hypothetical position may serve as the basis of discussion. For Christians it may become a guide to social action, as a "middle way" in which the values of "classical liberals" and "social planners" are seen to be more complementary than alternative. This effort by Christians to describe some specific goals for a particular society is necessary for action, but must always be viewed from the perspective of a Christian ethic which transcends our culture and which is continually open to the transforming power of the Grace of God. Its adherents seek an economy in which the tension between freedom and order is maintained, for it is a tension that creates new institutions capable of combining these values, in themselves one-sided, to achieve greater justice and brotherhood.



They also want an economy which utilizes the institutions of various economic systems rather than absolutizing a particular system. With such a middle way we can reconcile many of the interests of our most powerfully organized groups.

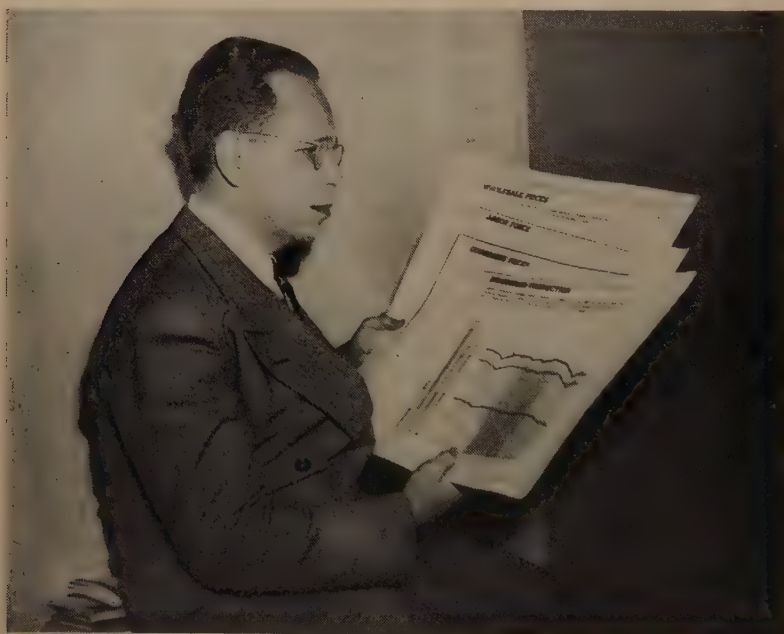
This middle way would have the bulk of our economic decisions as to allocation of resources and the production and distribution of individual commodities made by a market mechanism participated in by private individuals buying and selling for private account. We can call such a system a "private, free price system" if we like. The term "private" would mean that the market operates in a framework of primarily private ownership and that the operation of production and exchange would be undertaken primarily for private reasons. The term "free" should not be taken to imply the absence of any social or public controls whatever over buyer and seller. The price system would be free in the sense that prices are permitted to form a genuine allocating function not impeded by such devices as price control and rationing. With the proper social controls, one might argue, the price system would be capable of giving each individual the opportunity to purchase his just share of the nation's goods and allow him free choice of values, where the exercise of such individual choice is not in conflict with the public good. Would not this middle way give adequate freedom for exercise of individual initiative among business men and freedom to produce what the consumer wants or to create new consumer wants in the most economic and efficient fashion?

It appears from the description above of organized group positions on the price system that there are three major areas where controls are now being instituted by 'private and public groups to meet accepted criticisms of the price mechanism. They are: (1) control of the total money demand for goods; in short, economic stabilization; (2) control of the distribution of income and property; (3) control of private monopoly. We must now more carefully clarify common goals and describe

and evaluate the various alternatives available to us in these areas.

### **1) Economic Stabilization**

We need an economy in which the total monetary demand for goods and services is neither too great nor too small in relation to the total supply of goods and services that can be made available for purchase. The depression and the postwar boom have taught us the twin evils of deficiency of total monetary demand for goods and services and excessive supply of money pursuing too few goods. We are aware that the pric-



*Wide World*

Leon Keyserling, member of President Truman's Council of Economic Advisors, displays charts used in preparation of the Annual Economic Report transmitted to Congress recommending fiscal, monetary and price policies for economic stabilization.

ing mechanism cannot be relied upon alone to combat these evils.

### MONETARY POLICY

Christians, if they are to act responsibly for economic stability, need to clarify their knowledge of the monetary and fiscal controls available to our society. The first type of control has to do with the regulation of the supply of money; the second, with the amount and nature of government taxation and expenditure. At present, the decisions made by the Federal Reserve Board and the United States Treasury (particularly in management of the public debt) are crucial in the creation and control of our nation's money supply. The Federal Reserve Board is able to influence the supply of money by open market operations, varying reserve requirements on demand deposits in member banks, loan policies affecting rediscount and interest rates, etc. The Federal Reserve Board is quasi-governmental in character. Members of the board are appointed by the President, according to a bi-partisan, interest group, geographical formula. The system has an organic relation with private banks. The problem of whether the money supply should be subject to greater government control than assumed by the present Federal Reserve Board is a crucial one. So, too, are the ethical issues arising from the resistance to or acceptance of various special interest pressures by the policy makers.

### FISCAL POLICY

The most direct and effective public control of national expenditure is through changes in fiscal policy. If in times of inflationary pressures the amount of direct and indirect taxation is increased, persons will have less money income available for expenditure on goods and services, provided that the increased government revenue is not used for additional expenditure on goods and services but is added to a budget surplus or used to reduce the debt in public hands. Conversely, in deflationary periods, demand may be stimulated by reduc-



tion of taxation without any corresponding reduction in public expenditure on goods and services.

The organized groups in our society present a variety of viewpoints on the role of fiscal policy in our society. Some pressure group publicity in mass communications media gives the general impression, without making the assertions explicit, that tax money is wasted money. Taxation and government expenditures as a positive force for economic stabilization and for social service and welfare purposes have not been dwelt upon by groups seeking to educate the public on many less important matters. Fiscal policy is objected to by one of our most powerful business groups if it departs from annually balanced budgets, since such a departure would "open the floodgates of government extravagance." Such a stricture would leave fiscal policy but a pious hope. Some labor organizations have made little effort to clarify their positions on the relation of fiscal policy to economic stabilization. To judge from some of their statements, stable full employment is to be achieved if only government will permit labor to organize freely so as to raise wages and thus keep purchasing power high.

Some organized groups recommend that the government make more explicit in law its responsibility to carry out a fiscal policy aiming to iron out the worst swings of the business cycle, but not aiming to alter greatly the average level of total national expenditure over the cycle. They seek policy which will necessitate as little congressional manipulation of tax rates and prophesying of economic trends as possible. They rely upon "quasi-automatic" changes in tax collections brought about by income changes with no alteration in tax rates, the careful planning of public works projects and the stabilizing influence of extended social insurance programs.

Other groups want government commitment to a long-run fiscal and monetary policy, aiming at raising the national output consistent with a growing labor force and at maintaining a

## AN IMPORTANT DISTINCTION

I want to draw a sharp distinction between fiscal, monetary and debt management policies on the one hand and direct controls on the other hand. By direct controls I mean such measures as government price controls, wage controls, rationing, allocations and controls over the direction of investment. Failure to distinguish between these two kinds of measures is responsible for much confusion in public discussion and could lead to serious error in public policy. Two kinds of confusion are common. One is to reject the attempt to achieve greater stability by fiscal, monetary and debt management policies by putting these policies in the same class with direct controls over the details of private economic activity. The other is to accept and justify all manner of direct controls by putting them in the same class with indirect financial measures for stability.

\* \* \*

The advantage of fiscal, monetary and debt policies is that they allow the government to influence

the overall forces — especially the level of aggregate demand — that determine the stability of the economy without necessarily involving the government in detailed control of the particulars of the economy. These overall measures will, of course, affect different individuals and businesses differently. But the differences are determined by the market process, not by government decisions. The government does not have to make decisions that are with rare exceptions better left to the market — the price of shoes relative to the price of automobiles, whether the ABC company or the XYZ company should prosper, what kind of a job John Jones or Robert Smith should have.

—From the testimony of J. Cameron Thomson, of the Committee for Economic Development, before the Subcommittee on Monetary, Credit and Fiscal Policies of the Joint Congressional Committee on the Economic Report, November 23, 1949.

stable price level. Discretionary authority would be placed in executive-administrative hands to indicate changes in the timing or extent of fiscal and monetary policy. Some groups would not insist upon the budget necessarily being balanced over the cycle, maintaining that if the national income keeps increasing the public debt can grow also without being a greater burden than now.

## FOCUS OF RESPONSIBILITY

There are fiscal and monetary instruments available to aid in stabilizing our economy and increasing its productivity if we

but have the moral and religious resources to discover our responsibilities here. The more sharply we can focus the rules and responsibilities for the exercise of monetary and fiscal policy in the government, the more we can reduce the uncertainty affecting business investment and labor adjustment to new consumer demands. As a minimum indication of a determination to use monetary and fiscal powers positively to avoid serious instability, should government responsibility in fiscal and monetary policy be made more explicit than in present law, with provision for use of quasi-automatic devices, geared to changes in economic conditions, and for only that amount of discretionary government power necessary for effective action? The Amsterdam Assembly summarized our dilemma well: "... government has responsibilities which it must not shirk. But centers of initiative in economic life must be encouraged so as to avoid placing too great a burden upon centralized policy and decision."

Further, can it be agreed that the amount of fiscal and monetary manipulation (and the extent of deficit financing) the federal government will have to engage in for a stable, full employment economy will be influenced by what is done on the price-wage front? Government commitment simply to keep full employment through fiscal policy would have the government at the mercy of monopolists. There is always danger that unions and management may engage in collusion to make arrangements that are profitable to their own interests but impose upon industry financial burdens which ultimately the government and consumers will be called upon to carry. Producer groups may pursue wage, price and production policies for the primary benefit of themselves and thus contribute to unemployment and the necessity of extensive government spending in order to compensate for the action of these groups. There is danger of organized groups focusing on fiscal manipulation to avoid the difficult moral responsibilities in achieving an adequate price policy.



## 2) *Distribution of Income*

There are no generally accepted criteria of what is the "best" distribution of income for the "proper" functioning of the price system. Thus far in this century, America has been undergoing great income and property distribution, largely through progressive income taxes, even though many business groups will still not accept such social control as a valid goal for taxation. At some point the further equalization of income and property will clash with the nation's desire to achieve economic efficiency and high production. In a democratic society, basic conflicts of value are solved largely through the political process. Therefore, it is highly important that the political process be influenced by Christians actively at work.

The incentives of income differences are valuable in shifting resources into more desired channels and to stimulate production. Incentive, however, is a product of social forces related to comparative social status and to pride in work done as well as to money received. A society superficial in its religion and highly materialistic in its ethic may place much greater emphasis upon monetary motives for work than one in which a deep religious concept of vocation has developed. Thus far, there is no substantial evidence that past developments toward income equalization have reduced the over-all production of our nation.

As Christians we believe that unnecessary poverty is an affront to God who loves all men equally. We must ask ourselves: Should we not encourage social measures which would lift standards of living among those now living below an acceptable minimum? Should a Christian sense of vocation lead us to ask whether we perform a service to society adequate for the monetary reward we receive? Does not Christianity join to charity the indispensable obligation of justice and love?

### CONFLICT OF VALUES

Yet clearly at some point in every society the drive toward an equal distribution of wealth will conflict with economic effi-

ciency. What we as a nation will have available to spend collectively on various international commitments, on military preparedness, and on welfare and security programs depends for the most part upon our total national production. We shall have to balance the collective expenditures for social security against other collective expenditures we feel committed to make and against possible reduction in productive efficiency. If we seek to enlarge greatly our present collective expenditures for welfare programs and not to reduce expenditures for other items, we shall discover that at some point, no one is sure just where, the cost will be so great as to reduce our national production. Therefore, the amount we spend on social insurance and other welfare programs must be distributed as justly as possible.

There is a great pressure and counter-pressure today over how our national income will be distributed in the areas of: (1) social security; (2) public education; and (3) medical care.

### SOCIAL SECURITY

The present drive by unions for private social security and medical insurance programs to supplement the government welfare program highlights this conflict of values. The dual security system has potentialities of increasing security for groups with great union power at the expense of less well organized groups if the employers pass on the cost of the program to the consumers, and if the federal government in time feels called upon to halt extension of social welfare programs in order not to reduce the productive efficiency of the nation. In general, the most urgent need for just expenditure of the national income for social welfare appears to be the extension of coverage of the government's social security program to low income groups not now covered and to increase the payments.

### EDUCATION

In the collective expenditure of national income, expenditure

for public education should have a high priority. We wish to remove those inequalities of opportunity which themselves give rise to so large a part of present inequalities of income, rather than simply redistribute the unequal incomes. Inequalities of economic opportunity are due in part to inequalities in educational opportunity.

### MEDICAL CARE

Millions of people in America are increasingly demanding greater justice in the distribution of medical care. Persuasive arguments exist for meeting their demands better than at present. The cost of medical care is unpredictable and therefore, like the cost of other calamities, needs to be spread over a lifetime by some sort of insurance. Should this insurance be voluntary or compulsory? The question is complicated because those people who need medical insurance the most are the ones who cannot afford it. Most voluntary medical insurance today covers only surgery, extremely acute and extended illnesses, and then in part only. Yet the most costly illnesses are chronic and the greatest need is for preventive medicine.

No one knows for sure what the cost of a national medical care program would be and what other values would have to be sacrificed to carry out this program. The cost is, of course, not the only consideration before the American people. The issues of "loss of personalized medical care," of "bureaucratic interference with the efficiency of doctors," of "adequate incentives," etc. pose the conflicting values being pressed by various organized groups in our society.

We must in the future watch closely to see the effect of further distribution of wealth upon the maximizing of production if we are to promote the interests of depressed peoples. If there is clear evidence that further equalization would reduce output so that lower income people would be worse off after redistribution, then the redistribution would be undesirable. Certainly any reduction in inequality of income is de-



*Wide World*

Millions of people in America are increasingly demanding greater justice in the distribution of medical care. Can the cost of medical care, which is as unpredictable as many other calamities, be spread over a lifetime by some sort of social insurance? Can it be done without "loss of personalized medical care"?

sirable which leaves the level of average real income the same. Such goals will be of value only if we can develop objective data on the effect of distribution upon productivity.

If the American people at the ballot box decide to distribute income further, we must discover those ways which will have the least adverse effects upon economic incentives. Objective studies which are now under way of the effects of federal taxes upon business decisions will give data that should be put to use in tax reform. Do we wish to use data available on how taxes could be changed so as to bear more lightly on small, new business than on larger, established business? Do we believe that estate and inheritance taxes need to be strengthened on the basis that they are less likely to affect business incentives adversely than some other types of taxes, and tend to

reduce the perpetuation of inequitable distribution of income and opportunity?

### 3) *The Problem of Monopoly*

The middle way outlined here calls for the widest possible use of the free, private market mechanism. This will necessitate social controls being used by the government to insure that the institutional and legal conditions will make the rigging of the market for selfish ends as difficult as possible. In the free enterprise sectors of our economy, producers should be encouraged to compete.

#### BUSINESS MONOPOLY

Much legal and institutional reform is needed for this purpose. For example, we should seriously consider whether in certain areas of our economy the state should give up legal devices for setting minimum prices below which producers may not market their products. If society wishes to grant greater security of income to certain groups, should not other devices be used in order for the economy to benefit from the market mechanism in the allocation of resources? Are there changes in patent laws which can be made to promote greater competition? How can consumer education be extended so that consumers may have increased scientific knowledge of the qualities of products offered and monopoly based on ignorance of the consumer about the quality of products be reduced?

There remain those difficult areas of our economy where the restoration of competition seems uneconomic for various technical reasons: a few very efficient producers may produce enough goods to satisfy the market; mergers and cooperation of producers may bring economies and security necessary for the introduction of costly technical innovations in mass production.

Organized groups are greatly divided as to appropriate remedies in such circumstances. "Trust-busting" does not appear

to be the best approach. There are other devices of social control over monopoly, and the American way here as elsewhere seems to be in great part a pragmatic one. Are we clear enough now as to our economic and political goals to assess the varied techniques we have used and to decide the areas of our economy for which they are best suited: relatively independent, quasi-government agencies; grants-in-aid and government loan programs with public objectives; government bureaus co-ordinating citizen-group decisions; commissions regulating private corporations; encouragement of cooperative and government producers as "yardsticks" to measure the performance of other enterprises of the economy; public corporations, etc.?

Here are some of the more specific questions to which we might seek answers: What is the relative efficiency and responsiveness to public needs of government corporations such as TVA in comparison with privately owned monopolies, regulated by government commissions, such as in the railroad industry? Is the TVA experiment in combining many of the administrative and financial freedoms of a private business corporation with public responsiveness a device highly limited in use or is it capable of extension to other regions or sectors of our economy? Is it a political instrument with so great an independence of administration that if adopted widely it would make difficult large-scale, coordinated government planning?

### LABOR MONOPOLY

Our nation is also faced with the problem of relating freedom and social control in the labor market. We have accepted the necessity of strong labor unions for the achievement of industrial democracy. Collective bargaining has become a way of making managerial decisions that create new freedoms for workers. But collective bargaining as now practiced by powerful labor and business groups also introduces monopolistic elements in the determination of the principal cost element influencing the price of most things the consumer purchases.



The power of unions to control the labor market through pressure upon the buyer is now great enough in some key areas or might become great enough to rig the market in favor of a minority at the expense of the rest of the community. If certain unions make full use of their bargaining power, the nation may find it extremely difficult to achieve the delicate balance at full employment levels of wages high enough to maintain full employment, but not so high as to lead to dangerous inflationary spending once full employment is reached.

Companies in areas where industry-wide bargaining is achieved have in postwar years been exercising less and less restraint upon wage and security demands of the union. Without serious competition in the industry they have been able during inflationary periods to pass wage raises on to the consumer in price increases. The wage-fixing power of the unions can make for varied effects depending upon the circumstances in which the power is exercised. It may make for greater efficiency and productivity. In a deflationary phase of the business cycle it may act to keep up consumer purchasing power.

But the power may also make for rigidity in the labor market when it is important to the economy that money wage rates vary so that the price mechanism may perform its function of allocating productive resources to meet consumer needs. It is not clear how great a restraint the threat of competition of industries with substitute products will be upon some union wage demands, since the reduction of work opportunity in an industry (due to competition from other industries) may not affect those who are to keep control of the policies of the union. The experience of some countries with strong unions has indicated the difficulty of developing stabilized wage-price policies.

What does God will we do here? As Christians we must face some difficult unsolved issues. The way is not clear and we can but take what appear to be the next best steps in the light

of our religious faith and social knowledge. Some business groups take the position that the wage problem will be solved by preventing workers from combining to bargain in larger units than those workers employed by the same employer, and thus restoring competition in the labor market. Such a solution would also necessitate prevention of large-scale or industry-wide employer combinations for purposes of collective bargaining. This solution promises great difficulties.

Another means of determining wages is that of subjecting differences arising in collective bargaining to government arbitration. Will wages eventually become so important to economic stability that crucial "collective bargaining decisions" will be accepted, rejected, or revised by the government regularly, or even set directly by public authorities? The complexities of this approach are staggering for there are no commonly accepted criteria for wage setting. Apparently if we want economic stability, wages cannot rise more rapidly than the average productivity for the whole economy, except where necessary to encourage critically needed resource allocation or to remedy great wage inequities. Wage setting by government would reduce greatly the power of collective bargaining and the independence of labor and management; it would involve the possibility of public authorities responding to political pressures.

The problem of wages in relation to prices is but one aspect of the economic stabilization problem. With an economy of powerfully organized business and agriculture, as well as labor, the government is impelled to find means of encouraging these groups to keep their claims for income in line with adequate stability goals. Is government acquiescence in a constantly inflationary trend during high levels of employment an adequate solution to price-power problems, if it invites groups "to get theirs" in an inflationary free-for-all? May not power group leaders be aided in keeping the demand of rank-and-file members in line with public interests by the assurance of proper

*Acme*

Philip Murray, president of the CIO United Steelworkers, signs a contract calling for United States Steel to pay \$100 monthly pensions, as the steel company's vice president John A. Stephens watches. Will wage and security policies adopted by major power groups become so important to economic stability that they will be accepted, rejected or revised regularly by public authorities?

use of fiscal and monetary controls by the government to avoid dangerous long-term inflation or deflation?

### ***Power Blocs and Political Control***

The problem of making organized power socially responsible overshadows all our economic considerations. The degree of freedom that can exist in our society will be conditioned in part by the degree of self-restraint with which organized economic power is exercised. We believe that Christian faith is a source from which the human sympathy and righteous direction necessary for responsible action comes. Only men who are aware of God's purpose and grace, who live by a loyalty beyond themselves and their culture, can face inescapable defeats and moral failures and not despair.



Man, as our faith has revealed to us, is created in the image of God, but is also corrupted by the sin of self interest and pride. Therefore, man must develop a society with institutional and legal forms which take account of the sin as well as the good in himself. What are the institutional and legal changes in our society which will offer the greatest hope for the constructive channeling of economic power? Many power groups support their present pursuit of increased power with the ethical principle that equalized bargaining power between special interest groups would make for greater justice. These groups differ, however, in their estimate of what organizations have the greatest power, each claiming its own group to be "the underdog." For example, some labor leaders have argued that whatever power labor attained, it would not be greater than the power of business. Certainly justice has been achieved on this basis in many cases, and there are areas of this nation in which labor (and other inadequately organized interests) need support in organizing power sufficient to check the groups now able to exploit them.

But today we are increasingly aware that the battle of economic interests is not simply between labor and management. The consumer has vital interests also, which may not be represented where the cost of bargaining pressure can be passed on to him. As we come to understand the great power of organized business, agriculture and labor and the delicate and difficult nature of crucial economic decisions, are we willing to accept the twentieth century version of the harmony of interests doctrine: that the pursuit of enlightened self interest by big organized groups, increasingly balanced in strength, will automatically produce a just society?

### *The Industry Council Program*

Or more specifically do we believe that price and production policies of the nation should be determined by producer groups in more or less autonomous productive enterprises? This seems

*Wide World*

At this session of the 1948 national convention of the Congress of Industrial Organizations in Portland, Oregon, a resolution was passed endorsing Industry Councils as a way of increasing industrial democracy in America.

to be what some people have in mind as the best institutional arrangements to make organized private power responsible in our society. This is the Industry Council idea for basic mass production industries. This idea is in a nebulous and shifting state now in several organized groups. The most general belief seems to be that the councils would include the participation of organized labor as a co-equal with management, with government acting largely as the arbiter between claims of independent power groups. One statement of a postwar plan of economic organization called for a National Production Council of labor, business, agriculture and government to set goals for the various industries. Is this the type of industrial democ-



racy that we feel best channels and deflects the self interest drives of men? Certainly we can commend this effort to make highly concentrated economic power more responsible. It is more worthy of study than the drive of some producer groups and professional organizations to administer unilaterally and with legal sanction their own economic areas.

As a nation must we not face the fact that our economy cannot be coordinated and made adequately responsible to the people simply by the organization of vocational or guild groups to formulate in largely autonomous fashion policy for key sectors of our economy and for the nation as a whole? The decisions of increasingly powerful syndicates or pressure groups must be resisted, deflected, channeled and coordinated through democratic, political instruments. Essential also are continued experiments in property arrangements such as co-operatives and public corporations which can provide criteria for measuring and comparing the performance of various sectors of our economy. The political scientist's understanding of these instruments is far beyond that of the layman. The political ethic of the Protestant churches has been so individualistic in its orientation and so centered on the maintenance of separation of church and state to avoid government establishment of religion or abuse of religious liberties, that inadequate witness has been made in America of the grave ethical issues now involved in the political control of economic power.

The chief political instrument in America may well be the development of increasing party responsibility for national policy. The strong party is a political instrument for the moulding and modifying of pressure group demands into a national program and for seeing that the program is legislated and administered. The proper exercise of the social controls outlined above will necessitate study of the reforms available 1) in focusing political responsibility; 2) in improving the ability of Congress to legislate national policy; 3) in coordinat-



ing the executive, legislative and party sectors of our government; and 4) in developing more efficient and responsible administration of our government.

So great and pressing are these problems and so halting and selfish has been our leadership in solving them, a mood of deep repentance is upon us. May God forgive us for our lack of capacity for frankness and our "stupid smartness in the devious maneuver" of pressure politics. God gave us life and His only begotten Son for greater service to our fellowman.

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# Social Action's Fifteenth Anniversary Issue

## *On To Action*

The reason most frequently given for urgent social action is the disorder of modern society—the imminence of war, the growth of great monopolies, the spread of communism or the threat of economic instability. This is essentially an appeal to fear. It should not be the primary motive for a Christian.

Another reason frequently given is essentially an appeal to pity. Men are in great need, physical and spiritual. G. D. H. Cole remarks that the essential problem of modern society is “to find democratic ways of living for little men in big societies.” One important type of social action proposes to do this by forming individuals into small groups for fellowship, prayer, study and action. These “concerned” groups begin changing the world by influencing their little worlds of home, neighborhood, place of work and community.

The most important reason for social action is that we are men and women who are committed to Christ. We face the challenges in our current social order as if destiny depended on facing them. We have no other time in which to take our stand, to strike our colors, and to fight for Christ. In the perspective of centuries and in the light of generations of faith we must focus all our powers upon the present. This is our moment of existence. Our ultimate faith as Christians becomes real and concrete in our response to this present social crisis.

*Ray Gibbons*